UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Illinois Power Company	)	
Illinois Electric Transmission Company, LLC	)	
Trans-Elect, Inc.	)	Docket Nos. EC03-____ and ER03-___

PREPARED DIRECT TESTIMONY OF
JAMES H. DRZEMIECKI

<u>Personal Qualifications</u>

Q. Please state your name, position and business address.

A. My name is James H. Drzemiecki. I am employed by Trans-Elect, Inc. ("Trans-Elect") as Director of Acquisitions. My business address is 1850 Centennial Park Drive, Suite 480, Reston, Virginia 20191.

Q. Please briefly state your employment background and related professional activity.

A. From December 1980 to August 1991, I was employed as a Consulting Economist for J. W. Wilson, Inc. From August 1991, to September 1994, I was a Principal, Utility Consulting Practice, at DRI/McGraw Hill. From September 1994 to November 1996, I was a Senior Project Manager at ICF Resources, Inc. From November 1996 to August 2001, I was a director at PricewaterhouseCoopers, LLP, and from August 2001 to November 2001, I was an independent consultant. I have been Trans-Elect's Director of Acquisitions since November 2001. A complete copy of my resume is attached as Exhibit No. TE-6 to my testimony.

Q. Have you ever testified before?

A. Yes. I have served as an expert witness in over fifty proceedings before at least sixteen state regulatory authorities, the Federal Energy Regulatory Commission, US Bankruptcy Court and the Bonneville Power Administration. A detailed list of the proceedings in which I have provided testimony is included as part of my resume.

Introduction and Purpose of Testimony

Q. What is the purpose of your prepared direct testimony?

A. This proceeding involves an application filed by Illinois Electric Transmission Company, LLC ("IETC"), Illinois Transco Holdings, LP ("ITH"), and Trans-Elect (collectively, the "Trans-Elect Applicants") and Illinois Power Company ("Illinois Power") pursuant to Sections 203 and 205 of the Federal Power Act ("FPA"), for all authorizations from the Federal Energy Regulatory Commission ("Commission" or "FERC") necessary for IP to sell and transfer to IETC all of Illinois Power's right, title and interest in the transmission and related assets subject to this transaction, and for the provision of open access transmission service over those facilities pursuant to the rates, ratemaking methodologies and terms and conditions of service as described in the Application and related testimony being submitted herein.

My testimony presents the proposed ratemaking methodologies that Trans-Elect Applicants propose to implement, and provides illustrative first-year rates. I describe the mitigation measures that will be put in place to protect customers from any rate increases that result from these ratemaking methodologies. I will also describe and support the cost-benefit analysis that is being submitted by the

Trans-Elect Applicants as part of this proceeding, which includes a quantitative analysis showing that there are substantial benefits to the market arising from the ownership of the subject transmission facilities by the Trans-Elect Applicants.

Q. Please describe the ratemaking methodologies that you are proposing to adopt for IETC.

A. In this transaction, IETC proposes to use a rate formula to establish its revenue requirement and transmission service rates based on the rate template approved for use by the Midwest Independent Transmission System Operator, Inc. ("Midwest ISO"). This formula will reflect the use of levelized rates based on the original cost of the subject transmission plant at the time the underlying transaction closes, i.e., "gross plant," as well as a rate of return on equity ("ROE") of 13.0% and a capital structure of 50% debt and 50% equity. Dr. Charles E. Olson presents testimony supporting the proposed ROE and capital structure.

Q. Have you prepared an exhibit showing the illustrative rates that would result from these ratemaking methodologies?

A. Yes. Exhibit No. TE-7 shows illustrative first-year rates for transmission services based on the ratemaking methodologies described herein and the resulting revenue requirement.

Q. Why are you only providing illustrative rates?

A. Under the Midwest ISO's open access transmission tariff, there will be certain revenue credits that will serve as an offset to the amount of IETC's transmission revenue requirement that it will need to recover through its transmission rates. The level of this credits is not yet known. IETC will make a compliance filing prior to the effective date of its rates to provide the actual rate levels once these revenue credits levels are better established.

Q. What measures will be used to mitigate any resulting rate impacts?

A. While the use of levelized rates will result in a rate increase, IETC and Illinois Power will take steps, that combined with the benefits of independent transmission and the Illinois restructuring law, will protect most retail ratepayers from being impacted by this rate increase. Further, IETC will establish a number of mitigation measures of its own, such as the commitment to file and implement PBR, and to implement a voluntary rate cap that will commence June 1, 2007 and remain in place until December 31, 2010. Under this rate cap, ratepayers will be protected from any rate increase, other than the rate increase to be effective June 1, 2007, through the end of 2010.

In addition to these measures, it is important to note that the rate increases that will result from the rate methodologies described herein are not significantly different from those that would have resulted from Illinois Power's planned rate increases absent a sale. Illinois Power witnesses Shawn E. Schukar and Jacqueline K. Voiles provide additional testimony about future Illinois Power rate increases, and also explain certain aspects of Illinois' restructuring law.

Q. Please summarize the findings of your cost-benefit analysis.

A. The cost-benefit analysis provided herein is a quantitative analysis that demonstrates the benefits of having the Illinois Power transmission facilities owned by Trans-Elect Applicants. As shown in Mr. McCoy's testimony, among those benefits are enhanced and more focused investments in transmission infrastructure. Among the investments Mr. McCoy identifies as a potential investment for IETC is the 345kV Sidney to Rising transmission line. We have analyzed this investment to determine if it can result in increased access to a less expensive and broader array of generation options, to the benefit of power sellers and consumers alike, relative to its costs. Mr. Ronald W. Norman of PA Consulting Group provides testimony and the quantitative analysis that shows the benefits resulting from the Sidney to Rising line. In my testimony and Exhibit No. TE-8, I quantify the costs of the Sidney to Rising line and show the net benefits that would result from this investment to the market.

Proposed Ratemaking Methodology and Illustrative Rates

Use of the Midwest ISO Rate Formula and Levelized Rates

Q. What is the Midwest ISO rate formula and how does it work?

A. The Midwest ISO rate formula is a template pursuant to which virtually all of the Midwest ISO transmission owners determine their revenue requirement (or the equivalent), and the transmission rates for deliveries to each of these transmission owners' pricing zones. IETC will adopt the Midwest ISO rate template for use in determining IETC's revenue requirement and transmission rates. There are different templates for jurisdictional and non-jurisdictional members. For jurisdictional transmission owners, the template uses data from that transmission owner's most current FERC Form 1. This data is updated in June of each year based on the FERC Form 1 filed in April of that year. Thus, the rates for the Midwest ISO jurisdictional transmission owners that use this approach were revised effective June 1, 2002, using data from the FERC Form 1s filed in April, 2002, which in turn reflected data for the calendar year 2001.

Q. What are the advantages of using the Midwest ISO rate formula?

A. This rate formula provides a transparent and verifiable means of establishing and updating IETC's rates each year. It is also appropriate for use here, as IETC will be a transmission-owning member of the Midwest ISO.

Q. What are the specific components of the ratemaking methodology you are using herein?

A. The rates for IETC will reflect the use of levelized gross plant depreciation, a 13.0% ROE, and a 50/50 capital structure.

Q. What is a levelized rate?

A. A levelized rate is a rate that is designed to recover all capital costs through a uniform, non-varying payment over the life of the asset. A levelized fixed charge reflects the allocation of the capital costs (depreciation and return) associated with a particular asset in equal increments over the asset's life. Under a levelized rate approach, the return and depreciation components of the rate remain constant over the life of the asset. In Order No. 2000, the Commission analogized levelized rates to a traditional home mortgage, in which the homeowner makes consistent payments on principal and interest each month. Order No. 2000, 1996-2000 FERC Stats. & Regs., Regs. Preambles ¶ 31,089 at 31,193 (1999). By contrast, under the non-levelized approach, the original cost of an asset is reduced incrementally, through the depreciation component of the transmission owner's rates over the life of the asset, with the rate of return component of the transmission owner's capital structure applied to the net plant cost of the asset involved. This means that a non-levelized method generally will recover higher costs in the early years of a facility's life and increasingly lower costs in later years. By contrast, the levelized gross plant method will recover costs in equal (or levelized) increments each year of a facility's life.

Q. Will IETC have a full year of FERC Form 1 data for its first year of operations?

A. No. IETC will initially use transmission plant data and other information from Illinois Power's 2001 FERC Form 1 that was filed in April 2002 until such time as IETC has a full year's worth of its own FERC Form 1 data. IETC will use Illinois Power's allocation methodology for common costs, such as administrative and general expenses, to ensure that the inputs only reflect costs properly assignable to Illinois Power's transmission function. This methodology conforms to Commission precedent and was the basis on which Illinois Power's current rates were filed. Mr. Schukar describes Illinois Power's allocation methodologies and provides the relevant allocation factors. IETC will continue to use this data until it has a full-year of its own FERC Form 1 data. Once IETC has a full-year's FERC Form 1 data, it will use its own data and will not have to use allocation factors. As IETC will be a transmission company only, all the data will be related to transmission operations only.

Q. What level of revenue credit do you reflect in your rates?

A. As noted above, the rates that will be derived from the proposed ratemaking methodologies will reflect a credit for the allocation of the through-and-out revenue IETC will receive as a Midwest ISO transmission owner. That credit is expected to be anywhere between $10 million and $20 million per year. I will use a $15 million credit for purposes of deriving my illustrative rates.

Q. Please explain how the revenue credits will work.

A. These credits can be used to reduce the amount of IETC's revenue requirement that must be recovered through its transmission rates. The final rules for the determination of these amounts are still being developed. For illustrative purposes in developing the first year rates, I have used the $15 million number based on Illinois Power's projections. IETC will make a compliance filing prior to the effective date of the rates proposed herein to establish the actual credit level once the final rules for determining the level of the credit are in place. This will also give IETC additional time to develop historical data on the amount of revenues that are likely to be generated by through-and-out service. To the extent these revenues are indeed greater than this amount, the credit will be higher, and IETC's general transmission rates will be less than the level reflected in my illustrative rates.

Q. Have you prepared an exhibit that shows illustrative rates that would result from the proposed ratemaking methodologies?

A. Yes. In Exhibit No. TE-7, I show the illustrative first-year rates for transmission services based on the proposed ratemaking methodologies and resulting revenue requirement using the Midwest ISO's rate formula template.

Impact of Using A Levelized Ratemaking Methodology For Developing IETC's Revenue Requirement and Transmission Rates

Q. Will IETC's use of a levelized rate based on gross plant result in a rate increase?

A. As set forth below, the use of levelized rates based on gross (undepreciated) plant and the Midwest ISO rate formula will result in a rate increase. While Illinois Power's actual bundled rates should not change during the rate freeze period, the size of this increase can be viewed on a pro forma basis by comparison to Illinois Power's current frozen bundled rates, and on this basis would represent an increase of approximately 0.15 cents per kWh above Illinois Power's currently effective bundled retail rates. However, as described below, the benefits of this transaction to customers, including increased transmission investment as compared to what would occur absent this transaction will help mitigate these costs. Also, the mitigation measures that will be in place will help reduce the impact of this increase on all customers (including both bundled and unbundled retail customers).

Q. Why does IETC need to use levelized rates?

A. As explained by Mr. McCoy, the use of levelized rates is necessary to provide IETC with the revenues needed to justify its investment in the Purchased Assets, and to encourage the growth of independently-owned transmission. Notably, the Commission in Order No. 2000 (at 31,193) determined that the use of a levelized rate is preferable in an RTO environment for a transmission-only entity. Also, as Mr. McCoy explains, Commission approval of levelized rates is required by the Asset Purchase Agreement, which establishes the terms and conditions for the transaction to close. Without this approval, this transaction will not be consummated, with the attendant lost of benefits this transaction would otherwise bring.

Q. How have you determined what the expected first year rate is likely to be?

A. I have used the Midwest ISO rate formula template as described above, using 2001 FERC Form 1, and applying a 13% ROE, and the 50/50 capital structure. I have also used an estimated gross plant value of approximately $280,000,000. The actual gross plant value will be determined at the time of closing. As explained above, the illustrative rate also assumes a $15 million credit associated with through-and-out revenues. Using this data yields an illustrative first year rate of $1.162 per kW-month, which is approximately 0.15 cents per kWh more than the transmission component embedded in Illinois Power's existing bundled retail rate. This illustrative rate is shown in Exhibit No. TE-7.

Q. Is it valid to only compare the resulting rate to Illinois Power's existing rate in assessing the rate impact of this transaction?

A. No. As Illinois Power witness Mr. Schukar testifies, Illinois Power is now under-recovering its cost of service. Accordingly, Illinois Power, would have filed for a comparable rate increase in the near future. In his testimony, Mr. Schukar indicates that if Illinois Power were to seek an increase in its base transmission revenue requirement, this increase would be approximately 60% over the currently effective base transmission revenue requirement. This rate is not significantly different than the rate that would result from the ratemaking methodologies proposed by the Trans-Elect Applicants. In addition, Illinois Power's budget plans called for the filing of additional rate cases in 2005 and 2010. As noted by Mr. Schukar, these filings would have resulted in significant rate increases in the transmission revenue requirement of approximately 100%

and 113%, respectively, as compared to Illinois Power's current rates. Finally, should the revenue credit from the through-and-out service exceed the projected amount of $15 million, the higher credit will reduce transmission levels even more than projected.

Q. How do the illustrative rates compare to the other rates for service within the Midwest ISO?

A. As shown on my Exhibit No. TE-9, the illustrative first year rate for network service is in the lower one-third of such rates in the Midwest ISO.

Q. What do these comparisons show?

A. That the rate increase that would result from the proposed ratemaking methodologies is consistent with the rate increases that would have occurred absent this transaction.

Q. Are there other factors the Commission should consider in evaluating the levelized rate proposal?

A. Yes. It is important to keep in mind that transmission rates are a relatively small portion of the overall delivered cost of power paid by the ultimate consumer. I estimate that even if retail customers in Illinois fully absorbed the costs of the increase – that is, there was no mitigation in place – the use of levelized rates would only result in a 1.5% overall increase in the delivered price of power. Of course, bundled retail customers are held harmless, except in very limited circumstances, by the retail rate freeze through December 31, 2006, as explained by Ms. Voiles. In addition, Ms. Voiles states that the Transition Charge ("TC") mechanism mandated by the Illinois restructuring law will protect most unbundled retail customers from the effects of this rate increase through 2006.

Mitigation Measures

Q. What classes of customers will be affected by the rate increases, and to what extent?

A. Wholesale transmission customers will be affected by the rate increase immediately. Illinois Power's bundled retail ratepayers will be not be affected by any change in transmission rates through December 31, 2006 except under very limited circumstances. Most unbundled retail customers will not be affected by the rate increase prior to the end of 2006.

Q. Please summarize the various mitigation measures that will serve to protect customers from the effect of the expected rate increase.

A. Bundled retail customers will be protected by a retail rate freeze in effect in Illinois through the end of 2006, and will not be affected by the rate increase prior to that date, except under the very limited circumstances described by Ms. Voiles. As Mr. Schukar testifies, these customers constitute approximately 70% of the network load that will be served over the transmission facilities that IETC will acquire. Illinois Power's unbundled retail transmission customers are another 20% of the total transmission system network load. While unbundled retail customers are not protected by the retail rate freeze as long they take unbundled transmission service, most of these customers pay the TC, which is set by a statutory formula under Illinois law that subtracts the electric utility's transmission revenue from otherwise-determined charges and thereby mathematically offsets any increase in transmission charges through 2006. As Ms. Voiles explains, Illinois Power will calculate customers TCs using IETC's transmission rates. The remaining customers -- Illinois Power's current wholesale customers, who will comprise approximately 10% of IETC's expected network load -- will benefit immediately from the PBR mechanisms and rate cap provisions described below, which will eventually benefit all other customers as well. Specifically, IETC intends to implement PBR, and will flow through a portion of any amounts collected that are more than a specified deadband above its allowed ROE to these customers, to be implemented sometime in 2005. These benefits will flow through to unbundled retail customers as well, and will be reflected in Illinois Power's rates to its bundled retail customers when those rates are reset after expiration of the Illinois retail rate freeze. As an additional mitigation measure, IETC's transmission rates will be capped at the level to be effective June 1, 2007, which is the first time the rates will be updated after the Illinois retail rate freeze ends. As this is a cap rather than a freeze, the rates cannot go up, but can go down. As indicated by Mr. McCoy, this rate cap will remain in effect from June 1, 2007 until December 31, 2010.

<u>The Illinois Rate Freeze and Illinois Power's Commitment to Retail Customers in Illinois</u>

Q. How will the retail freeze in Illinois protect customers?

A. Under Illinois' restructuring law, the rates for bundled retail service are frozen during a "mandatory transition period" that will end on January 1, 2007. Thus, Illinois Power will not be able increase rates to its bundled retail customers prior to this date.

Q. Are there any exceptions to this rate freeze?

A. Ms. Voiles indicates that Illinois Power can request an increase in its bundled rates prior to 2007 if the two-year average of its earned rate of return on common equity falls below an amount tied to long-term U.S. Treasury rates. However, Ms. Voiles has indicated that Illinois Power does not expect to qualify under this exception to file to raise its bundled rates during this period by virtue of any transmission rate increases resulting from the proposed rate methodologies.

Q. How will the TC protect unbundled retail customers from increased rates?

A. As described in Ms. Voiles' testimony, the TC is intended to allow utilities in Illinois to recover a portion of their lost revenues resulting from the transition to an unbundled retail market. The statutory formula for the TC incorporates a mathematically-inverse relationship between transmission revenues and the TC. As Ms. Voiles testifies, Illinois Power will calculate its customers' TCs using IETC's transmission rates. As a result, any resulting increases in transmission rates can be effectively offset by a reduced TC. For any given customer or customer class, the amount by which an increase in transmission rates can be offset by the TC depends upon the transition charges being paid by such customer or class. Specifically, if the TC for a customer or customer class is high enough that it will remain at or above zero even when reduced by the amount of the transmission rate increase, then the customer or customer class will be protected from the impact of the higher transmission rates. In addition, as Ms. Voiles explains, the degree to which an individual customer is protected may vary if the customer's current usage pattern deviates from that used to calculate the customer's TC.

Q. Do unbundled retail customers have any other options to avoid a rate impact?

A. Yes. Retail customers on the Illinois Power distribution system who switch to unbundled service are generally free to switch back to bundled service, (subject to the terms of their contracts with their power suppliers), and thus can receive the protections of bundled rates and the rate freeze in effect through 2006 at any time.

IETC's Protections For Retail Customers

Q. What mitigation measures will IETC implement to protect retail customers?

A. The economic and societal benefits I have described that arise from having the facilities owned by an independent transmission company will inure to the unbundled retail ratepayers once IETC assumes ownership of the subject transmission facilities. IP's current wholesale customers and unbundled retail customers not affected by the TC will also benefit from sharing in efficiency gains after PBR is implemented. These benefits will flow to the bundled retail ratepayers after 2006 once the retail rate freeze ends and Illinois Power's bundled retail rates are reset. The rate cap that will go into effect June 1, 2007 will protect all customers, including bundled and unbundled retail customers.

Wholesale Transmission Customers

Q. What protections are available to wholesale transmission customers?

A. Wholesale transmission customers will benefit from the efficiencies that independent transmission brings to the market. Moreover, starting in 2005, any adverse rate impact will be mitigated by the sharing mechanisms of the PBR proposal Trans-Elect is committing to implement. Finally, the rate cap that will go into place in mid-2007 will also protect against any further rate increases for 3-1/2 years, through 2010.

Commitment Not to Change the Ratemaking Methodologies

Q. Please describe IETC's plan not to modify the ratemaking methodologies.

A. IETC will not file to change any elements of the proposed ratemaking methodologies, including the 13.0% ROE or the 50/50 capital structure, through the end of state-mandated freeze on December 31, 2006. IETC will also cap its rates at the level resulting from the rate change to be effective June 1, 2007 through the end of the voluntary rate cap, which will not terminate until December 31, 2010.

PBR

Q. What exactly are performance-based rates?

A. Performance-based rates, or PBR, are rates that allow both ratepayers and the regulated utility or transmission owner to automatically share in the benefits associated with the efficient operation of the regulated entity. In the absence of PBR, the customer would have to wait until the utility or transmission owner files its next rate case to receive these benefits. Also, without the stated ability to retain some portions of the amounts generated by more efficient operations, the regulated entity will have less of an incentive to produce these efficiencies.

Q. Is Trans-Elect Applicants' commitment consistent with the Commission's PBR policies?

A. Yes. Trans-Elect Applicants' commitment to develop a PBR proposal is being made in direct response to the Commission's statements in Order No. 2000 encouraging the development of market-like forces in the context of independent transmission entities, where the Commission stated that PBR would "allow the Commission to rely on market-like forces, to the maximum extent possible, to create incentives for RTOs to efficiently operate and invest in the transmission system." Order No. 2000 at 31,182. The Commission added that it believes that PBR "may provide significant benefits over traditional forms of cost-of-service regulation," and that PBR will "promote competitive power markets." While IETC will not be an RTO, it will be an independent transmission owner in an RTO, and the same rationale justifies allowing it to implement PBR for its rates.

Q. How will IETC's PBR mechanism work?

A. IETC will establish a "deadband" around its approved return on equity. To the extent that IETC achieves an earned ROE in excess of the upper bound of the deadband, it would share a portion of these amounts with its customers in the form of a credit that will effectively reduce the revenue requirement used for the formula year. This proposal will result in only a positive rate benefit for IETC's customers; if IETC is more successful than expected (that is, earns an amount that effectively exceeds its allowed return plus the deadband), customers will receive a benefit. If not, IETC sustains any shortfall, and there is no downside for customers. Also, the amount flowed back to customers will be tiered, so that the higher the recovery above the allowed ROE plus the deadband, the greater the amount of credits customers will receive.

Finally, I should add that each year's credit will be incorporated in the subsequent year's rate, and will not rollover to subsequent years.

Q. When will PBR be implemented?

A. As explained by Mr. McCoy, Trans-Elect Applicants are committing to file to implement PBR at the beginning of 2005. This will give IETC sufficient time to develop operating data and establish a baseline that will be used for PBR. At this point, Trans-Elect Applicants expect that the PBR proposal will remain in place through 2008. All customers paying IETC's transmission rates will benefit from this sharing, with wholesale transmission customers receiving this benefit in 2005, and bundled retail customers, possibly as early as 2007, after termination of the rate freeze in Illinois. Unbundled retail transmission customers will benefit as early as 2005, depending on the size of the applicable TC.

Q. Has the deadband been established?

A. No deadband has been established and the Trans-Elect Applicants are not in this proceeding seeking approval of a specific PBR proposal. Trans-Elect Applicants will develop a proposal consistent with the one I have described herein that will be consistent with Order No. 2000 and the applicable FERC policy, and which will be submitted to the Commission so that PBR may be implemented in 2005. Submitting the PBR proposal at this later date will also allow Trans-Elect Applicants to avoid getting locked into a PBR mechanism that may no longer be appropriate or consistent with Commission policy at the time it actually begins.

Q. How will PBR provide benefits?

A. To the extent that IETC operates more efficiently and reduces costs, it can receive an effective return that is greater than its allowed return. By allowing IETC to keep a portion of this efficiency gain, the PBR mechanisms provide an incentive for these efficiencies to be achieved. Customers will benefit by receiving an increasing share of these gains as well.

Q. What are the other benefits of PBR?

A. As I previously explained, PBR will mitigate the effect of the rate increase, while allowing customers to share in profits that result from the increased efficiencies of independent transmission.

Q. What will the costs of PBR be to the ratepayers?

A. There are none. Ratepayers will not pay more if IETC under-recovers its cost of service.

<u>Post-June 1, 2007 Rate Cap</u>

Q. Please explain how the rate cap will work.

A. IETC will cap its rates from June 1, 2007 forward at the level in effect as of that date. This rate cap will remain in effect for 3-1/2 years, until December 31, 2010. Because this is a rate cap and not a rate freeze, transmission rates can go down, but cannot increase. This rate cap will benefit all customers once it is implemented.

<u>Cost-Benefit Analysis and the Benefits of Independent Transmission</u>

Q. Have you done an analysis of the costs and benefits of this transaction?

A. Yes. I have undertaken an analysis to quantify the benefits and efficiencies associated with independent transmission.

Q. What are the benefits of independent transmission?

A. As discussed by Mr. McCoy, independent transmission has the ability to bring significant benefits to the market. As a pure transmission entity, IETC will have the incentive to make transmission system investments such as the Sidney to Rising line, and will have increased access to capital markets to fund these types of expansions. By being focused solely on transmission, IETC will also have the incentive to appropriately invest in transmission upgrades where the market needs them, to operate as efficiently as possible, and not to over-invest.

Q. Please describe your cost benefit study.

A. As set forth in my Exhibit No. TE-8, this study assumes construction of a 345 kV Sidney to Rising transmission line, which would interconnect two substations that are not now interconnected. Because of constraint lead times, both my study and Mr. Norman's study assume that the Sidney to Rising line will not be completed until 2006, and only look at the period 2006 to 2010. The study quantifies the installed cost of this line and the relevant benefits taken from Mr. Norman's study on a net present value basis and shows the net benefits that result.

Q. What are the costs of constructing the Sidney to Rising line?

A. As shown on Exhibit No. TE-8, the costs are expected to be $33 million in current dollars. This estimate was developed from current survey information regarding the cost of constructing a 345 kV single circuit with 345 kV steel lattice towers. It also includes the costs associated with site preparation and installation.

Q. What are the benefits that will result from construction of the Sidney to Rising line?

A. As shown on Exhibit No. TE-8, based on Mr. Norman's analysis, the average societal benefits for the Midwest ISO-PJM-SPP "Super RTO" are \$12.9 million and \$11.2 million in 2006 and 2010, respectively, both expressed in 2003 dollars.

Q. Why did you choose the Midwest ISO-PJM-SPP "Super RTO" as the basis for your analysis?

A. The Midwest ISO-PJM-SPP "Super RTO" was chosen because this geographic region encompasses the relevant market that will be most directly impacted by the addition of the Sidney to Rising 345kV line.

Q. Mr. Norman's study was performed for the years 2006 and 2010. How did you develop the estimates of benefits for the period 2007 to 2009?

A. The analysis presented by Mr. Norman shows that the range of benefits is relatively constant for the years 2006 and 2010. In light of the fact that no fundamental change either in the generation mix (such as massive retirement of nuclear units in the region) or the basic high voltage transmission network is likely to occur during the interim, I chose to interpolate between the 2006 and 2010 results to develop the annual benefits for the period in between these years.

Q. Does your cost benefit study show that a net benefit will result from the Sidney to Rising line?

A. Yes. As Exhibit No. TE-8 shows, the net benefit of construction of the Sidney to Rising line expressed on a net present value basis is about \$16.9 million.

Q. What other factors are important to an evaluation of these benefits?

A. Because transmission is a relatively small component of the delivered cost of power, it only takes a relatively small decrease in energy or capacity costs to mitigate an increase in transmission costs.

Q. What steps will Trans-Elect Applicants take to facilitate construction of this line?

A. As Mr. McCoy explains, Trans-Elect Applicants will provide the Midwest ISO within three months of closing all of its studies and analyses and other support to allow the Midwest ISO to undertake and complete the required study process and approve construction of the Sidney to Rising line. This should significantly accelerate the Midwest ISO's study and approval process, as well as the date by which these facilities can be constructed.

Q. Does the study take into account all of the likely benefits of independent transmission?

A. No. The study takes a conservative approach, and does not take into the other benefits, such as increased confidence in the market, and more efficient management, that will results from independent transmission. If these factors were taken into consideration, the net benefits associated with IETC's ownership of the subject transmission facilities would be even greater.

Q. Does this conclude your testimony?

A. Yes.

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Illinois Electric Transmission Company, LLC	)	Docket Nos. EC03-___ and ER03-___
Trans-Elect, Inc.	)	

State of Virginia
~~City~~ County of Fairfax

James H. Drzemiecki, being first duly sworn, deposes and states that he is the James H. Drzemiecki referred to in the document entitled "Prepared Direct Testimony of James H. Drzemiecki," that the exhibits accompanying that document were prepared by him or under his direction; that he has read such testimony and is familiar with the contents thereof, and that the facts set forth therein are true and correct to the best of his knowledge, information and belief in this proceeding.

James H. Drzemiecki

Subscribed and sworn to before me, the undersigned notary public, this 19 th day of November, 2002.

Notary Public

My Commission Expires: 9/30/04

JAMES H. DRZEMIECKI

RANGE OF EXPERIENCE

Recognized expert at the senior executive and Board levels in the electric power and natural gas industries. In over twenty years in the consulting industry, the areas of recognized expertise include:

- Electric generation, transmission and distribution market strategy and assessments, including regulatory strategy
- Utility cost reduction efforts
- Generation, transmission and distribution asset valuation
- Generation, transmission and distribution cost and price analysis
- Development of strategic business and marketing plans for electric and natural gas companies
- Merger target identification for electric and natural gas companies
- Development of new product and service offerings
- Benchmarking of utility business functions
- Regional natural gas market assessments
- Load forecasting and fuel procurement analysis for electric power companies
- Development of energy procurement strategies for large commercial and industrial customers

PROFESSIONAL AND BUSINESS HISTORY

Trans-Elect, Inc. Director of Acquisitions, November 2001 to present

Independent Consultant, August 2001 to November 2001

PricewaterhouseCoopers, LLP: Director, November 1996 to August 2001

ICF Kaiser: Senior Project Manager, September 1994 to November 1996

DRI/McGraw-Hill. Principal Consultant, August 1991 to September 1994

J. W Wilson, Consulting Economist, December 1980 to August 1991

EDUCATION

M. A. Economics, The Ohio State University, Columbus, Ohio, 1978

B. A. Economics, The Ohio State University, Columbus, Ohio, 1976

PROFESSIONAL AND BUSINESS EXPERIENCE

New For-Profit Transmission Company – sold and led the successful effort on the part of the first independent for-profit transmission company to obtain the assets of a system in the US Midwest. The work involved leading a multi-disciplined team of experts in the areas of pricing, financial analysis, organizational structure, accounting, legal and regulatory issues.

Fortune 500 Electric Power Company - led a team of analysts to develop forecasted costs of service for a functionally separated electric transmission and distribution electric utility for use in regulatory proceedings. Cost forecasts (both capital expenditure and O&M costs) were developed for each activity that will be undertaken by the wires company upon the introduction of retail competition. Particular emphasis was placed on ensuring that the recommended functional activities were properly costed and that the transmission market structure that the client would operate in was properly reflected in the analysis.

The efficacy of the resulting costs were benchmarked against similarly situated electric companies. The results of the analysis were submitted to state regulatory authorities in the form of testimony.

Fortune 500 Global Electric Utility - served as the lead advisor on procuring state regulatory approval of a cross-border acquisition of an electric utility. Developed the state regulatory approval strategy to be used by the client. This effort involved leading a team of ten staff, none of whom had ever been involved in this process, to develop and deliver the requisite information necessary to implement the strategy for regulatory approval. This required training the team in all of the relevant aspects of US regulation as they impact the acquisition of a utility. The effort also included preparing client staff to address all concerns raised by hostile parties during the process. The efforts were successful, as the client received approval for the transaction in 1999.

Have continued to serve as an advisor to the client in the areas of (1) valuation of six potential acquisition candidates, (2) organizational structure to be employed for subsequent acquisitions and/or dispositions, primarily in the areas of generation and transmission and (3) ongoing regulatory strategy to ensure cost recovery.

Fortune 500 Global Electric Utility - served as the lead advisor on procuring state regulatory approval for another cross-border acquisition for another client. Developed the state regulatory approval strategy to be used by the client. This effort involved leading a team of five staff to develop and deliver the requisite information necessary to implement the strategy for regulatory approval. This required training the team in all of the relevant aspects of US regulation as they impact the acquisition of a utility. The effort also included preparing client staff to address all concerns raised by hostile parties during the process. The efforts were successful, as the client received approval for the transaction in 2000.

Large Consortium of Municipal Electric Utilities - served as the lead technical advisor to the Board of Directors of a group of municipal electric utilities. Developed strategic options for the Board to employ to remain viable, including the acquisition of all transmission assets owned by investor-owned utilities within the state. Advised the Board as to the strategic and tactical steps to employ to implement its strategy.

Consortium of Electric Generation and Transmission Cooperatives - served as the lead advisor for the consortium's investigation of the merits of entering the energy services business. Part of the advisory role involved the development of the critical success factors for business and an assessment of the capabilities possessed by the consortium in this area.

Fortune 500 Electric Utility and Large Municipal Utility – sold and led the team of experts to assist two utilities in developing improved means of forecasting electric loads to support their respective energy trading strategy.

Large Electric Generation and Transmission Cooperative - developed the strategic business plan for this multi-state electric power supplier for the past two years. Another dimension of the analysis involved the development of a valuation estimate for cooperatively-owned generation assets. Part of this analysis involved a detailed market assessment of the transmission business in both the Midwest and the Southern US, with particular emphasis on the issues surrounding the formation of Regional Transmission Organizations within this region.

The effort is undertaken on behalf of the President and the Board of Directors and involves direct interaction with the Board.

Fortune 500 Electric and Natural Gas Utility - served as an expert antitrust advisor regarding the merger between two US utilities. Developed an expert opinion regarding the market impacts of the merger in a variety of areas, including both existing and future markets, to be used as expert testimony to secure approval of the transaction.

Fortune 500 Electric Utility - led a team of analysts in a benchmarking analysis of utility functions for the CEO. The purpose of the analysis was to determine how the company compared to others in its market in all functional areas, including generation, transmission and distribution. Subsequent to the completion of the first phase of the analysis, developed a set of pricing strategies for both the generation and transmission businesses.

Expert Testimony - served as an expert witness in over fifty proceedings before sixteen [**check]** state regulatory authorities, the Federal Energy Regulatory Commission, US Bankruptcy Court and the Bonneville Power Administration. Subjects include

- Generation, transmission and distribution cost and price analysis
- Stranded cost analysis
- Regional gas market assessments
- Utility load forecasting
- Utility fuel procurement
- Power supply planning
- Utility performance
- Benchmarking

A complete list of expert testimony presented is included as Attachment I hereto.

Fortune 500 Companies - have developed energy strategies for a number of Fortune 500 companies during the past fifteen years. The strategies emphasize both energy procurement and energy management. Also have successfully implemented these strategies for the companies, with special emphasis on ensuring that the client undertook the requisite modifications in business processes contemporaneously with the implementation of the strategy to maximize success.

FORTUNE 500 INVOLVEMENT

ScottishPower
PowerGen

Central and South West
Pacific Gas and Electric
Puget Sound Energy
Progress Energy
Sempra
Consolidated Edison Company of New York
Equitable Resources, Inc.
BP Amoco
R. J. Reynolds
ExxonMobil
U. S. Steel
Reynolds Metals
LCP Chemicals
Nucor Steel
Air Liquide
Pepsico
Quaker Oats

ARTICLES AND PUBLICATIONS

"The Coming Electric 'Wal-Mart': Preparing for Competitive Electric Markets," Public Utilities Fortnightly, July 15, 1993, Volume 131, Number 14

"California Gas Market Competitive Study: Evaluation of the Competitive Benefits of the Pacific Gas and Electric Company Pipeline Expansion." Prepared for Pacific Gas and Electric Company, March 1993.

"Evaluation of the Economics of Supply Basins Serving California and the Impacts of the Pacific Gas and Electric Company Pipeline Expansion." Prepared for Pacific Gas and Electric Company, March 1993.

SPEECHES

"Stranded Cost Recovery: No Need to be an Impediment to Competition" - Electricity Regulation: Resolving Impediments to a More Competitive Industry; Pasha Publications, October 1998

"Negotiating the Operating Guidelines for Your Energy Convergence Alliance" - Building Successful Energy Convergence Alliances; Infocast, June 1998

"How Retail Customer Choice Should Affect Your Energy Purchase Decisions" - The Southeast Energy Buyers Summit; Infocast, May 1998

"Convergence and Contiguous Mergers and Their Positive Impact on Market Competition" - Antitrust & Anticompetitive Behavior; Infocast, May 1998

"Stranded Costs: The Need for a Theory of Deregulation in the Debate - The FERC Agenda; Pasha Publications, October 1997

"Alternative Ways to Package an Energy Outsourcing Program - Energy Outsourcing; Infocast, October 1997

EXPERT TESTIMONY PRESENTED

Before the U. S. Bankruptcy Court for the District of Delaware

Case No. 91-804; In Re Columbia Gas Transmission Corporation; the long-term market for natural gas produced in Appalachia.

Before the Federal Energy Regulatory Commission

Docket No. CP89-634-001, et al.; Iroquois Gas Transmission System; pipeline rate design.

Docket Nos. ER88-630-000 and ER88-630-001; New England Power Company; electric utility load forecasting and purchased power costs.

Before the Arizona Corporation Commission

Docket No. E-1032-86-020, et al.; Citizens Utilities Company; electric power supply, natural gas supply, cost allocation and rate design.

Docket No. E-1933-86-036; Tucson Electric Power Company; power plant performance.

Docket No. E-1345-83-155; Arizona Public Service Company; electric rate design.

Before the Connecticut Department of Public Utility Control

Docket No. 89-08-12; United Illuminating Company; electric cost allocation and rate design.

Docket No. 87-07-01 (Phase II); Connecticut Light and Power Company; electric and natural gas cost allocation and rate design.

Before the Delaware Public Service Commission

Docket No. 99-457; Delaware Electric Cooperative, Inc.; stranded cost exposure and mitigation of above-market generation costs.

Before the Public Service Commission of the District of Columbia

Formal Case No. 787; Washington Gas Light Company; cost allocation.

Formal Case No. 737; Chesapeake & Potomac Telephone Company; utility productivity.

Before the Georgia Public Service Commission

Docket No. 3770-U; Georgia Power Company; test-year fuel costs.

Docket No. 3673-U; Georgia Power Company; cost allocation and rate design.

Before the Hawaii Public Utilities Commission

Docket No. 6431; Hawaiian Electric Company; cost allocation and rate design.

Docket No. 6432; Hawaii Electric Light Company; cost allocation and rate design.

Docket No. 6378; Hawaiian Electric Company; avoided costs for qualifying facility purchases and power supply contract issues.

Docket No. 6177; Hawaiian Electric Company; avoided costs for qualifying facility purchases and power supply contract issues.

Before the Illinois Commerce Commission

Docket No. 90-0169; Commonwealth Edison Company; cost allocation and rate design.

Docket No. 90-0006; Illinois Power Company; cost allocation and rate design.

Docket No. 90-0007; Peoples Gas Light and Coke Company; cost allocation and rate design.

Docket Nos. 89-0001 and 89-0011; Commonwealth Edison Company; rate refunds for residential customers.

Docket No. 87-0427; Commonwealth Edison Company; cost allocation and rate design.

Docket No. 86-0128; Commonwealth Edison Company; rate design.

Before the Iowa State Commerce Commission

Docket No. RPU-87-6; Iowa Public Service Company; cost allocation and rate design.

Before the Maine Public Service Commission

Docket No. 85-209; Bangor Hydro-Electric Company; rate design.

Before the Maryland Public Service Commission

Case No. 8201; Delmarva Power & Light Company; affiliate relations in the Integrated Resource Planning process.

Case No. 8245; Potomac Edison Company; avoided costs for qualifying facility purchases and power supply contract issues.

Case No. 8191; Maryland Natural Gas Company; cost allocation and rate design.

Case No. 8011; Conowingo Power Company; incentive rates for electric utilities.

Case No. 7982; Conowingo Power Company; rate design.

Before the Minnesota Public Utilities Commission

Docket No. E015/GR-80-277; Otter Tail Power Company; rate design and PURPA ratemaking standards.

Docket No. E999/GR-80-560; PURPA Section 210 rulemaking.

Before the Public Service Commission of the State of Montana

Docket No. 90.6.39; Montana Power Company; statistical analysis of hydroelectric production and electric cost allocation and rate design.

Docket No. 90.1.1; Montana Power Company; natural gas cost allocation and rate design.

Docket No. 88.11.53; Montana-Dakota Utilities Company; natural gas cost allocation and rate design.

Docket No. 88.6.15; Montana Power Company; avoided costs for qualifying facility purchases and power supply contract issues.

Docket No. 87.12.80; Pacific Power & Light Company; cost allocation and rate design.

Docket No. 87.8.38; Montana Power Company; natural gas cost allocation and rate design.

Docket No. 87.8.37; Great Falls Gas Company; cost allocation and rate design.

Docket No. 87.4.21 et al.; Montana Power Company; electric cost allocation and rate design.

Docket No. 86.12.76; Pacific Power & Light Company; cost allocation and rate design.

Docket No. 86.5.28; Montana-Dakota Utilities Company; electric cost allocation and rate design.

Docket No. 85.7.30; Montana-Dakota Utilities Company; electric cost allocation and rate design.

Docket No. 83.9.68; Montana-Dakota Utilities Company; treatment of post-test period adjustments to operating expenses and electric cost allocation and rate design.

Docket No. 83.8.58; Montana-Dakota Utilities Company; treatment of post-test period adjustments to operating expenses and natural gas cost allocation and rate design.

Docket No. 82.6.40; Montana-Dakota Utilities Company; treatment of post-test period adjustments to operating expenses.

Before the North Carolina Utilities Commission

Docket No. E-7, Sub 408; Duke Power Company; power supply planning and power plant performance.

Before the Public Utilities Commission of Ohio

Case No. 89-1001-EL-AIR; Ohio Edison Company; treatment of excess capacity costs.

Before the South Dakota Public Utilities Commission

Docket No. F-3371; Nebraska Public Power District Application for Construction of the MANDAN Facility; forecasting transmission system requirements.

Before the Texas Public Utility Commission

Docket No. 9300; Texas Utilities Electric Company; interruptible rate design.

Docket No. 8480; City of Austin Electric Utility; cost allocation and rate design issues.

Formula Rate - Levelized

Rate Formula Template
Utilizing FERC Form 1 Data

Illinois Electric Transmission Company

Line No.						Allocated Amount
1	GROSS REVENUE REQUIREMENT	(page 3, line 25)			12 months	$ 62,877,212
	REVENUE CREDITS	(Note E)	Total	Allocator		
2	Account No. 456		15,473,000	TP	1.00000	15,473,000
3	TOTAL REVENUE CREDITS					15,473,000
4	NET REVENUE REQUIREMENT	(line 1 minus line 3)				$ 47,404,212
	DIVISOR					
5	Average of 12 coincident system peaks for requirements (RQ) service				(Note A)	3,399,000
6	Divisor					3,399,000
7	Annual Cost ($/kW/Yr)	(line 4 / line 6)	13.947			
8	Network & P-to-P Rate ($/kW/Mo)	(line 7 / 12)	1.162			
			Peak Rate			Off-Peak Rate
9	Point-To-Point Rate ($/kW/Wk)	(line 7 / 52; line 7 / 52)	0.268			$0.268
10	Point-To-Point Rate ($/kW/Day)	(line 9 / 5; line 9 / 7)	0.054 Capped at weekly rate			$0.038
11	Point-To-Point Rate ($/MWh)	(line 10 / 16; line 10 / 24 times 1,000)	3.353 Capped at weekly and daily rates			$1.596
12	FERC Annual Charge($/MWh)	(Note B)	$0.000 Short Term			$0.000 Short Term
13			$0.000 Long Term			$0.000 Long Term

Formula Rate - Levelized

Rate Formula Template
Utilizing FERC Form 1 Data

For the 12 months ended 12/31/01

Illinois Electric Transmission Company

Line No.	(1) RATE BASE:	(2) Form No. 1 Page, Line, Col.	(3) Company Total	(4) Allocator		(5) Transmission (Col 3 times Col 4)
	GROSS PLANT IN SERVICE					
1	Production		0	NA		
2	Transmission		271,735,000	TP	1.00000	271,735,000
3	Distribution		0	NA		
4	General & Intangible		0	W/S	1.00000	0
5	Common		0	CE	1.00000	0
6	TOTAL GROSS PLANT (sum lines 1-5)		271,735,000	GP=	100.000%	271,735,000
	ACCUMULATED DEPRECIATION					
7	Production		0	NA		
8	Transmission		0	TP	1.00000	0
9	Distribution		0	NA		
10	General & Intangible		0	W/S	1.00000	0
11	Common		0	CE	1.00000	0
12	TOTAL ACCUM. DEPRECIATION (sum lines 7-11)		0			0
	NET PLANT IN SERVICE					
13	Production	(line 1- line 7)	0			
14	Transmission	(line 2- line 8)	271,735,000			271,735,000
15	Distribution	(line 3 - line 9)	0			
16	General & Intangible	(line 4 - line 10)	0			0
17	Common	(line 5 - line 11)	0			0
18	TOTAL NET PLANT (sum lines 13-17)		271,735,000	NP=	100.000%	271,735,000
	ADJUSTMENTS TO RATE BASE	(Note F)				
19	Account No. 281 (enter negative)		0	NA	zero	0
20	Account No. 282 (enter negative)		0	NP	1.00000	0
21	Account No. 283 (enter negative)		0	NP	1.00000	0
22	Account No. 190		0	NP	1.00000	0
23	Account No. 255 (enter negative)		0	NP	1.00000	0
24	TOTAL ADJUSTMENTS (sum lines 19- 23)		0			0
25	LAND HELD FOR FUTURE USE		0	TP	1.00000	0
	WORKING CAPITAL (Note C)					
26	CWC		3,008,375	TP	1.00000	3,008,375
27	Materials & Supplies		3,113,000	TP	1.00000	3,113,000
28	Prepayments (Account 165)		92,000	GP	1.00000	92,000
29	TOTAL WORKING CAPITAL (sum lines 26 - 28)		6,213,375			6,213,375
30	RATE BASE (sum lines 18, 24, 25, & 29)		277,948,375			277,948,375

Formula Rate - Levelized

Rate Formula Template
Utilizing FERC Form 1 Data

Illinois Electric Transmission Company

Line No.	(1)	(2) Form No. 1 Page, Line, Col.	(3) Company Total	(4) Allocator		(5) Transmission (Col 3 times Col 4)
	O&M					
1	Transmission		17,155,500	TE	1.00000	17,155,500
2	Less Scheduling Costs	(Note D)	2,750,000		1.00000	2,750,000
3	A&G		6,041,500	W/S	1.00000	6,041,500
4	TOTAL O&M (sum lines 1, 3 less line 2)		20,447,000			20,447,000
	DEPRECIATION EXPENSE					
5	Transmission		1,000	TP	1.00000	1,000
6	General		0	W/S	1.00000	0
7	TOTAL DEPRECIATION (Sum lines 5-6)		1,000			1,000
	TAXES OTHER THAN INCOME TAXES					
	LABOR RELATED					
8	Payroll		0	W/S	1.00000	0
9	Highway and vehicle		0	W/S	1.00000	0
10	PLANT RELATED					
11	Property		870,000	GP	1.00000	870,000
12	Gross Receipts			NA	zero	0
13	Other		0	GP	1.00000	0
14	Payments in lieu of taxes		0	GP	1.00000	0
15	TOTAL OTHER TAXES (sum lines 8 - 14)		870,000			870,000
	INCOME TAXES					
16	Composite Tax Rate					40.00%
17	Gross Up Factor					66.67%
18	Sinking Fund Dep Rate					0.000003
19	Book Depreciation Rate					0.009906
20	Taxable Portion of Return					59.09%
21	Levelized Income Tax on Plant		10,715,631			10,715,631
22	Levelized Income Tax Non-Plant		269,260	NA		269,260
23	Levelized Income Tax Total (sum lines 21-22)		10,984,891			10,984,891
24	RETURN [Rate Base (page 2, line 30) * Rate of Return (page 4, line 9)]		30,574,321	NA		30,574,321
25	REV. REQUIREMENT (sum lines 4, 7, 15, 23, 24)		$ 62,877,212			$ 62,877,212

Formula Rate - Levelized

Rate Formula Template
Utilizing FERC Form 1 Data

Illinois Electric Transmission Company
SUPPORTING CALCULATIONS AND NOTES

Line No.	TRANSMISSION PLANT INCLUDED IN ISO RATES		
1	Total transmission plant (page 2, line 2, column 3)		271,735,000
2	Less transmission plant excluded from ISO rates		0
3	Less transmission plant included in OATT Ancillary Services		0
4	Transmission plant included in ISO rates (line 1 less lines 2 & 3)		271,735,000
5	Percentage of transmission plant included in ISO Rates (line 4 divided by line 1)	TP=	1.00000

RETURN (R)

Line No.		$	%	Cost (Note P)	Weighted $	
6	Long Term Debt	138,974,188	50%	0.0900	0.0450	=WCLTD
7	Preferred Stock	0	0%	0.0000	0.0000	
8	Common Stock	138,974,188	50%	0.1300	0.0650	
9	Total (sum lines 6-8)	277,948,375			0.1100	=R

Formula Rate - Levelized

Rate Formula Template
Utilizing FERC Form 1 Data

Illinois Electric Transmission Company

Note Letter	
A	Peak as would be reported on page 401, column d of Form 1 at the time of the ISO coincident monthly peaks.
B	The FERC's annual charges for the year assessed the Transmission Owner for service under this tariff.
C	Cash Working Capital assigned to transmission is one-eighth of O&M allocated to transmission at page 3, line 8, column 5. Prepayments are the electric related prepayments booked to Account No. 165 and reported on Pages 100-111 line 46 in the Form 1.
D	Removes dollar amount of transmission expenses included in the scheduling rates.
E	The revenues credited on page 1 shall include only the amounts received directly (in the case of grandfathered agreements) or from the ISO (for service under this tariff) reflecting the Transmission Owner's integrated transmission facilities. They do not include revenues associated with FERC annual charges, gross receipts taxes, ancillary services, facilities not included in this template (e.g., direct assignment facilities and GSUs) which are not recovered under this Rate Formula Template.

Cost-Benefit Analysis Associated with the Addition of the Sidney-Rising 345 kV Line
($Thousands)
($2003)

Year	Installed Costs	Benefits	Discounted Benefits	Net Benefits
2006	$33,020	$12,900	$12,900	
2007		$12,500	$11,261	
2008		$12,100	$9,821	
2009		$11,700	$8,555	
2010		$11,200	$7,378	
Total	$33,020		$49,915	$16,895

Notes:

1) Installed Costs - IETC estimate
2) Benefits - PA calculation for the Super region for the years 2006 and 2010.
   Years 2007-2009 are interpolations between the 2006 and 2010 results.
   Discount rate - 11%

YEAR 2002 MISO RATES FOR OATT SCHEDULE 9

(effective November 1, 2002)

ZONE	TRANSMISSION OWNER	$/kW-MO
2E	ATCLLC UPPC	$3.17
13	Montana-Dakota Utilities Co.	$2.97
15	Otter Tail Power	$2.90
16	Southern Illinois Power Cooperative	$2.73
1	Alliant Energy West (IES Utilities & IPC)	$2.18
	Manitoba Hydro (representative rates $US) /1	$2.07
5	City Water, Light & Power (Springfield, IL)	$2.06
6	Hoosier Energy	$1.75
2C	ATCLLC Wisconsin P&L	$1.67
14	NSP Companies	$1.59
2A	ATCLLC Madison Gas & Electric	$1.58
2D	ATCLLC Wisconsin Energy	$1.46
2B	ATCLLC Wisconsin Public Service	$1.44
12	Minnesota Power	$1.42
7	International Transmission Company	$1.21
	Illinois Electric Transmission Company, LLC	$1.16
19	Vectren Energy	$1.15
4	Cinergy Services (including IMPA & WVPA)	$1.15
8	Indianapolis Power & Light	$1.04
3	Central Illinois Light Co.	$1.03
11	Michigan Electric Transmission Co LLC	$0.98
9	Louisville G & E/Kentucky Utilities	$0.94

Note:

1 Calculated using fixed exchange rate. See Manitoba Hydro OASIS for actual rates (http://www.hydro.mb.ca)

IETC, in the form of a verified petition and testimony under oath, stating openly and fully not only what IETC's business is, but what its intentions are for its business in the future. Not only has IETC made these representations to this Commission, but these representations also form the explicit basis for the rate treatment sought by IETC to its other regulator, FERC, and that status is confirmed as well in Trans-Elect's Form U-1 filed with the Securities and Exchange Commission. IETC renews those representations in this response to Staff's data request: Upon approval of the requested relief, IETC will be an independent transmission utility and it has no plans or intentions whatsoever to become a market participant by becoming involved in other businesses which may be competitively or financially impacted as an ongoing condition of its status as a certified public utility under the Illinois Public Utilities Act.

IETC believes that it is fundamentally reasonable for the Illinois Commerce Commission to rely on these statements and plans in judging IETC's application, just as it does for other applicants, and believes that the Commission retains the authority to issue appropriate orders if at any time IETC, as a public utility regulated in Illinois, acts contrary to law or its Certificate. *See, e.g.*, 220 ILCS §§ 8-406(f), 8-502, 8-505. While IETC does not believe that it would be lawful, even if agreed to by IETC, for the Commission to condition a Certificate on IETC's advance waiver of other rights, IETC notes that it has requested a Certificate to operate *only* as a transmission utility and it has no objection to the Certificate it requests being clearly limited to exercise of that authority only.